

**REPORT OF THE AUDIT OF THE  
FAYETTE COUNTY  
CLERK**

**For the Year Ended  
December 31, 2006**

**FAYETTE COUNTY CLERK**

**DECEMBER 31, 2006**

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The Honorable Donald W. Blevins, Fayette County Clerk  
Members of the Lexington-Fayette Urban County Council

## **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the County Clerk of Fayette County, Kentucky, and the statement of revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2006. These financial statements are the responsibility of the County Clerk. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the accompanying financial statements referred to above present fairly, in all material respects, the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

The Honorable Jim Newberry, Mayor  
Lexington-Fayette Urban County Government  
The Honorable Donald W. Blevins, Fayette County Clerk  
Members of the Lexington-Fayette Urban County Council

In accordance with Government Auditing Standards, we have also issued our report dated July 26, 2007, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of the County Clerk and Urban County Council of Fayette County, Kentucky and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

  
Hisle & Company

July 26, 2007

This report contains 13 pages.

**FAYETTE COUNTY**  
**DONALD W. BLEVINS, COUNTY CLERK**  
**STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

**Revenues**

State fees for services:

Preparing tax bills	\$	16,123	
Registration of voters		2,943	
Reimbursement of election personnel expenses		81,646	\$ 100,712

Lexington-Fayette Urban County Government:

Preparing tax bills			35,450
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Licenses and taxes:

Motor vehicle-

Licenses and transfers	\$	6,039,351	
Usage tax		34,163,054	
Tangible personal property tax		20,756,417	
Duplicates and miscellaneous fees		276,516	
Child assistance donation		63,433	
Postage		127,378	

Licenses-

Marriage licenses		67,048	
Professional bond		37,702	
Deed transfer tax		2,093,463	
Delinquent taxes		2,132,419	65,756,781

Fees collected for services:

Recordings-

Affordable housing trust	\$	164,694	
Deeds, easements and contracts		150,036	
Real estate mortgages		676,932	
Chattel mortgages and financing statements		526,076	
Powers of attorney		20,729	
Releases		143,112	
All other recordings		203,808	

Charges for other services-

Postage		98,209	
Copywork		225,697	2,209,293

Other:

Inspection fees	\$	44,225	
Miscellaneous		10,089	54,314

Interest earned			64,373
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Gross revenues (carried forward)			\$ 68,220,923
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The accompanying notes are an integral part of these financial statements.

**FAYETTE COUNTY**  
**DONALD W. BLEVINS, COUNTY CLERK**  
**STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

Gross revenues (brought forward) \$ 68,220,923

**Expenditures**

Payments to state:

Motor vehicle-

Licenses and transfers \$ 4,660,778

Usage tax 33,136,210

Tangible personal property tax 8,398,091

Licenses, taxes, and fees-

Delinquent tax 1,576,595

Legal process tax 204,098

Affordable housing trust 164,694 \$ 48,140,466

Payments to Lexington-Fayette

Urban County Government:

Tangible personal property tax \$ 1,322,741

Delinquent tax 48,524

Deed transfer tax 1,988,790 3,360,055

Payments to Fayette County Schools:

Tangible personal property tax \$ 8,902,762

Delinquent tax 86,661 8,989,423

Payments to Fayette County Extension Office:

Tangible personal property tax \$ 47,822

Delinquent tax 148 47,970

Payments to Fayette County Health Dept.:

Tangible personal property tax \$ 416,651

Delinquent tax 822 417,473

Payments to LexTran:

Tangible personal property tax \$ 840,047

Delinquent tax 716 840,763

Payments to Fayette County Sheriff

7,486

Payments to Fayette County Attorney

226,105

Payments to Soil & Water

18

Other expenditures:

Inspection fees \$ 44,225

Miscellaneous 121,150 165,375

Total expenditures

62,195,134

Net revenues

6,025,789

Payments to State Treasurer:

75% Operating Fund \$ 4,609,975

25% County Fund 1,415,814 6,025,789

Balance due at completion of audit

\$ 0

The accompanying notes are an integral part of these financial statements.

**FAYETTE COUNTY**  
**DONALD W. BLEVINS, COUNTY CLERK**  
**STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCES**  
**OF THE COUNTY CLERK'S OPERATING FUND AND COUNTY FUND**  
**WITH THE STATE TREASURER - REGULATORY BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>75%</u> <u>Operating</u> <u>Fund</u>	<u>25%</u> <u>County</u> <u>Fund</u>	<u>Totals</u>
Fund balance - January 1, 2006	\$ 2,667,260	\$ 0	\$ 2,667,260
<b><u>Revenues</u></b>			
Fees paid to State - Operating Funds (75%)	4,609,975		4,609,975
Fees paid to State - County Funds (25%)		<u>1,415,814</u>	<u>1,415,814</u>
Total funds available	\$ <u>7,277,235</u>	\$ <u>1,415,814</u>	\$ <u>8,693,049</u>
<b><u>Expenditures</u></b>			
Lexington-Fayette Urban County Government	\$ 1,531,520	\$ 1,415,814	\$ 2,947,334
Personnel services -			
Official's salary	94,106		94,106
Official's training incentive	3,302		3,302
Official's expense allowance	3,600		3,600
Deputies salaries	2,858,971		2,858,971
Employee benefits -			
Employer's share social security	212,445		212,445
Employer's share retirement	354,742		354,742
Employer's paid health insurance	387,070		387,070
Contracted services -			
Advertising	831		831
Printing and binding	29,037		29,037
Microfilm and microfiche	27,965		27,965
Maintenance and repairs	93,240		93,240
Software support	35,185		35,185
Insurance	27,927		27,927
Professional services	37,119		37,119
Materials and supplies -			
Office supplies	96,897		96,897
Computer supplies	9,981		9,981

The accompanying notes are an integral part of these financial statements.

**FAYETTE COUNTY**  
**DONALD W. BLEVINS, COUNTY CLERK**  
**STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCES**  
**OF THE COUNTY CLERK'S OPERATING FUND AND COUNTY FUND**  
**WITH THE STATE TREASURER - REGULATORY BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>75%</b> <b>Operating</b> <b>Fund</b>	<b>25%</b> <b>County</b> <b>Fund</b>	<b>Totals</b>
<b>Expenditures (Continued)</b>			
Other Charges -			
Conventions and travel	\$ 12,423	\$	\$ 12,423
Dues	18,011		18,011
Postage	162,269		162,269
Telephone	30,174		30,174
Rent	39,360		39,360
Bank charges	6,028		6,028
Miscellaneous	89,673		89,673
Capital Outlay -			
Furniture	1,769		1,769
Office equipment	920,844		920,844
Software	94,823		94,823
Building improvements	<u>97,923</u>		<u>97,923</u>
Total expenditures	<u>7,277,235</u>	<u>1,415,814</u>	<u>8,693,049</u>
Fund balance - December 31, 2006	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>

The accompanying notes are an integral part of these financial statements.

**FAYETTE COUNTY  
DONALD W. BLEVINS, COUNTY CLERK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

**Note 1. Summary of Significant Accounting Policies**

**A. Fund Accounting**

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

**B. Basis of Accounting**

KRS 64.820 directs the fiscal court to collect any amount due from the County Clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

**FAYETTE COUNTY  
DONALD W. BLEVINS, COUNTY CLERK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006  
(CONTINUED)**

**B. Basis of Accounting (Continued)**

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2006

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

**C. Cash and Investments**

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured by any obligation permitted by KRS 41.240(4).

**Note 2. Employee Retirement System**

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

**FAYETTE COUNTY  
DONALD W. BLEVINS, COUNTY CLERK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006  
(CONTINUED)**

**Note 2. Employee Retirement System (Continued)**

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

**Note 3. Deposits**

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(b). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk -- Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**Note 4. Lease**

The office of the County Clerk was committed to a lease agreement with Pitney Bowes for a mailing system which was renegotiated during 2006. The original agreement required a quarterly payment of \$1,785 for 24 quarters to be completed on May 30, 2007. A revised agreement was entered into with an effective date of March 1, 2006. The revised agreement requires 20 quarterly payments of \$2,532. The total balance of the agreement is \$45,576 as of December 31, 2006. Pitney Bowes only allows this equipment to be leased, therefore, purchase of this equipment was not an option.

**FAYETTE COUNTY  
DONALD W. BLEVINS, COUNTY CLERK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006  
(CONTINUED)**

**Note 4. Lease (Continued)**

The future minimum lease payments due under the terms of the revised lease for the five years subsequent to December 31, 2006 are as follows:

<b><u>Year Ended December 31</u></b>	<b><u>Amount Due</u></b>
2007	\$ 10,128
2008	10,128
2009	10,128
2010	10,128
2011	<u>5,064</u>
Total	\$ <u>45,576</u>

**REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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The Honorable Jim Newberry, Mayor  
Lexington-Fayette Urban County Government  
The Honorable Donald W. Blevins, Fayette County Clerk  
Members of the Lexington-Fayette Urban County Council

### **Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of The Financial Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements – regulatory basis of the Fayette County Clerk for the year ended December 31, 2006, and have issued our report thereon dated July 26, 2007. The County Clerk's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Fayette County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Fayette County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of the Financial Statements Performed in Accordance  
with Government Auditing Standards

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Fayette County Clerk's financial statements as of December 31, 2006, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Urban County Council of Fayette County, Ky. and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

  
Hisle & Company

July 26, 2007